

Los Cerros (LCL AU)

Initiation: Working toward 3Moz in Colombia's prolific Mid Cauca

RECOMMENDATION: BUY

PRICE TARGET: A\$0.36/sh

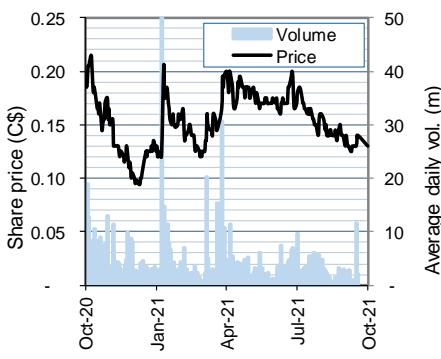
RISK RATING: SPECULATIVE

SHARE DATA

Shares (basic, FD, FF FD)	626 / 678 / 1054
Share price (A\$/sh)	A\$0.15/sh
52-week high/low	A\$0.215 / A\$0.09
Average daily value (A\$000, 3M)	447
Market cap (A\$m)	94.0
Pro forma cash 4Q21 (A\$m)	24.0
1.0xNAV5% @ US\$1850/oz (A\$m)	1,107
1.0xNAV5% FD (A\$/sh) ^a	1.22
Project P/NAV today (x, FD)*	0.09x
SCP 0.2xNAV-1850-5% PT (A\$/sh):	A\$0.36/sh
Implied upside (%)	

FINANCIALS	Y1	Y2	Y3
Gold sold (000oz)	196	225	225
Revenue (A\$m)	68	554	554
AISC (US\$/oz)	586	586	586
Income (A\$m)	6.6	211.7	215.6
EPS (A\$)	0.6	20.1	20.5
PER (x)	24.1x	0.7x	0.7x
CFPS (A\$)	(24)	25	26
FCF yield (%)	-	168%	171%
EBITDA (A\$m)	43	386	386
EV/EBITDA (x)	10.1x	0.9x	0.8x

TIME VALUE: 1850/oz	4Q21	4Q22	4Q23
1xNAV5% FF FD (A\$m)	871	927	972
1xNAV5% FF FD (A\$/sh) ^a	1.39	1.27	1.33
TIME VALUE: 1750/oz	4Q21	4Q22	4Q23
1xNAV5% FF FD (A\$m)	761	812	851
1xNAV5% FF FD (A\$/sh) ^a	1.22	1.11	1.16



Source:Fidessa; *diluted for options ^& mine build

Colombian explorer with a new discovery

Los Cerros, formerly Metminco, owns two projects in Colombia's prolific Mid Cauca belt, host to >60Moz of gold. Flagship 100% owned Quinchia has a small 840koz UG resource with DFS, and low-grade pittable 459koz; the 'ah hah' moment came with the discovery of the Tesorito South porphyry <1km away. Drilling there has demonstrated the trifecta of scale (629m @ 0.88g/t), grade (238m @ 2.1g/t), and a pit but also a high-grade starter area (36m @ 3.3g/t from surface). The maiden MRE is targeted ~1H22 once the limits are established.

Existing small UG with A\$297m NPV_{1850-5%}: useful addition to a pit

Prior owners had focussed on early cash-flow from the small Miraflores UG where a 457koz @ 3.3g/t reserve was defined within an 840koz @ 2.7g/t resource. Although production of 46koz pa on capex of A\$90m is useful, it lacks scale. However, like Didipio in the Philippines, when bolted onto a potential pit a few hundred meters away, it has the potential to bulk out production ounces.

Recent discovery could see SCPe 1.5-2Moz maiden MRE in 1H22

Post three holes drilled by prior owners, drilling did not restart at pace until 2020. Early drilling hit lower grade and deeper material, but this subsequently proved to be peripheral to a high-grade core that daylights NE of this. A ~150m core within a ~220m halo supports our sensitised ~40-60Mt potential pit-constrained resource tonnage at various grades and cut-offs. This drives our 1.3Moz @ 1.1g/t mining inventory. Adding the UG, we model a 4Mtpa plant for LOM 166koz pa over 10 years (>200koz pa early years), driving an A\$1.1bn NPV, although this is speculative ahead of the MRE.

Bags of exploration ahead, in the hottest real estate globally

Tesorito South appears to sit within a cluster of deposits, with the majority yet to be tested. In fact, Tesorito South itself remains open at depth, to the NE and to the South. Separately, the company hosts an 8x larger licence, 90% owned Andes, 70km to the north. That, and Tesorito, lie in 'gold alley' in Colombia in one of the most prolific belts for gold globally, thanks to flat-slab tectonism in the area. This Miocene 'Middle Cauca belt hosts >60Moz, all of which is along strike of Quinchia and Andes.

Initiate with BUY rating and A\$0.36/sh PT on hybrid pit and UG

We model the Miraflores UG per the DFS for 457koz @ 3.3g/t, adding a concurrent open pit mining of 1.3Moz @ 1.1g/t. This supports 166koz pa over 10Y at an AISC of US\$939/oz for our A\$1,080m NPV. We model >200koz pa in the early years where high-grade starter pits speed payback. Diluting for options, but not mine build, we apply a 0.2xNAV_{1850-5%} multiple to this, **initiating with a BUY rating and A\$0.36/sh PT**. After a recent A\$20m equity raise, the company is drilling with four rigs on both Tesorito South and satellites, hence discovery success and the MRE should be catalysts. We also note that 15m 16c options expired last week, which could take near-term pressure off the stock.

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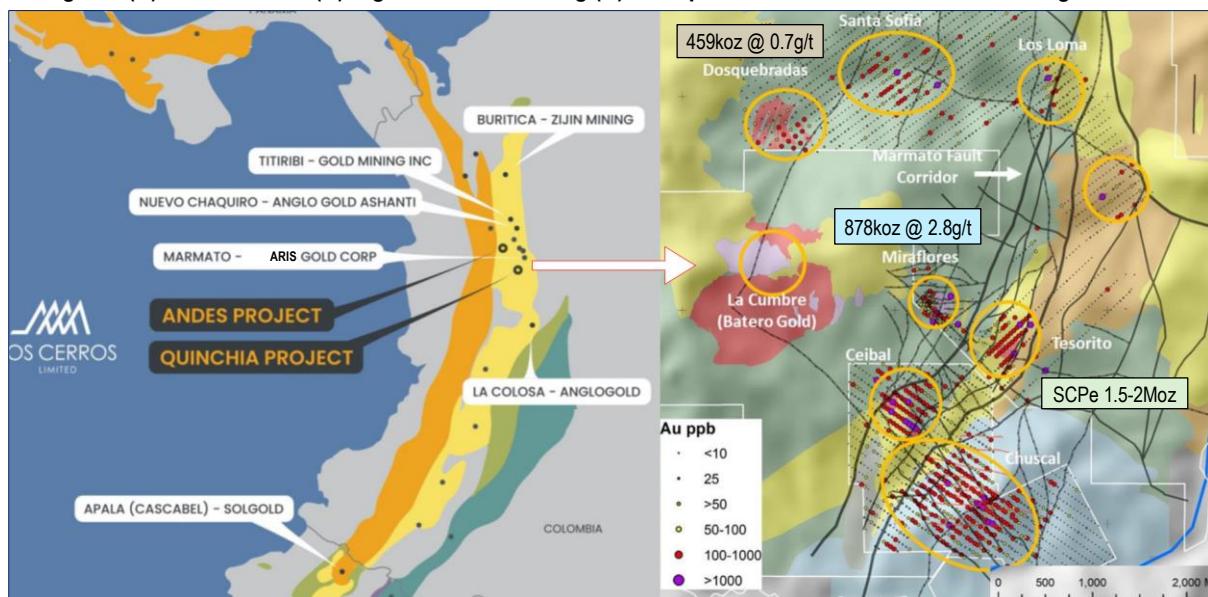
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Summary

Los Cerros' flagship Quinchia gold porphyry lies in the Miocene 7-11Ma Mid Cauca belt of Colombia. This prolific belt hosts >50Moz along strike including Marmato (4Moz, 30km N), Nuevo Chaquiro (7Moz, 60km N), La Colosa (28Moz, 75km S), Titiribi (10Moz, 90km N), and Buritica (6Moz, 110km N). Quinchia comprises the Miraflores, host to a pre-acquisition 840koz @ 2.7g/t resource (457koz DFS), but the step-change and cornerstone asset came with Los Cerros' newly discovered pre-resource Tesorito South gold porphyry. Our positive view on Los Cerros is underpinned by four aspects: (i) **scale for SCPe >2Moz** exemplified by drill highlights of 116m @ 2.3g/t within 461m @ 1.1g/t, (ii) **pittable from surface** with (iii) a high-grade starter pit, exemplified by 36m @ 3.3g/t from surface, and (iv) is part of a cluster of largely untested porphyry centres remaining to be tested.

Figure 1(A) Colombia and (B) regional belts showing (C) most prolific >60Moz Miocene belt hosting Quinchia

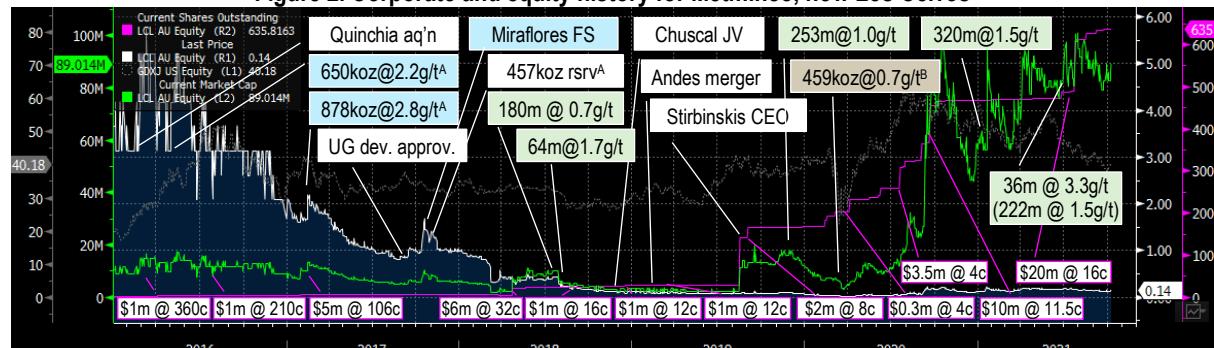


Source: Modified from Sillitoe (1982) and Sillitoe and Perelló (2005) with Palaeocene belt extensions to Ecuador, and L Cretaceous added

Corporate history

Predecessor Metminco listed in 2007 as a domestic explorer before pivoting to Peru in 2009 with now-sold low-grade Los Calatos project, moving to Colombia in 1Q16 with the acquisition of Quinchia from administrators of a prior junior. Early work recut the historic Miraflores resources and feasibility, followed by drilling at Tesorito South in 2H18. Early peripheral holes of <0.5g/t coincident with poor markets took away momentum while adjoining Chuscal, also part of the Quinchia project, was acquired from AngloGold more recently. After a merger with Andes in 2019 (adding Andes exploration project), current CEO Jason Stirbinskis took over, drilling Chuscal (94m @ 1.3g/t composite) and restarting drilling at Tesorito. After a 1H20 pause from COVID, the momentum changed mid-year 2020 with three rigs (including one owned) highlighting Tesorito's scale, with **230m @ 1g/t** from surface, importantly perpendicular to earlier drilling. The final piece came with the discovery / delineation of the higher-grade core at surface, including **320m @ 1.5g/t** from 2m, but more recently and most critically for IRR / payback, 36m @ 3.3g/t from surface. Drilling is now focussed here ahead of a maiden MRE.

Figure 2. Corporate and equity history for Metminco, now Los Cerros

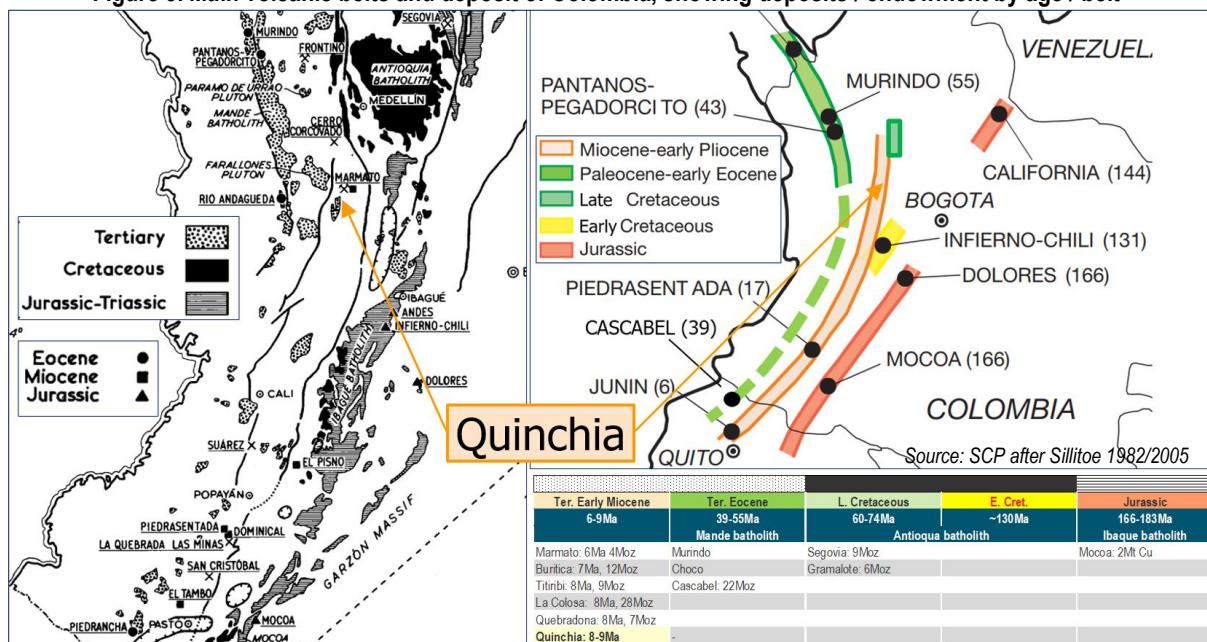


Source: Bloomberg, SCP; A/blue: Miraflores, B/green: Dosquebradas, C/brown: Tesorito South

Located in the 'right' geology: flat slab tectonism trumps imaginary subducting hot-spot

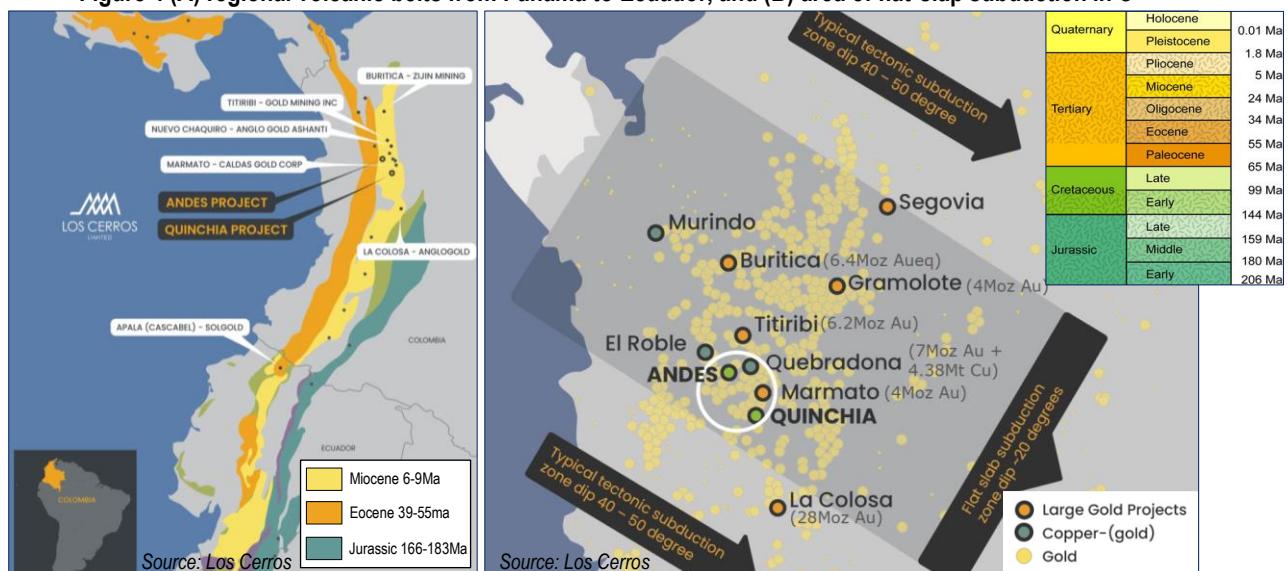
Young is good: Porphyries form as groups over short time spans, in narrow belts. The Andes hosts the most prolific of these because of the stable and long-lived subduction zone. Prime examples of Andean porphyry belts are the **Eocene-Oligocene** belt which hosts 123Mt Cu ranging from Southern Peru to northern Chile and including Solgold's Cascabel; the **Miocene-Pliocene** with 178Mt Cu (El Teniente, Rio Blanco-Los Bronces, and Los Pelambres); or the **Miocene-Pliocene** belt in Peru with 32Mt Cu (Toromocho, Antamina, La Granja). For gold, flat-slab tectonism is discussed below, but the time-window is also key as older belts are more likely to be eroded away. Colombia's prolific **Middle Cauca** belt, host to Quinchia, hosts over 60Moz of gold, cornerstoring Colombia's position as the centre for more gold discoveries than any other country from 2006 – 2016 (Figure 3).

Figure 3. Main volcanic belts and deposit of Colombia, showing deposits / endowment by age / belt



'Real' tectonic ingredients: When oceanic slabs subduct under continental plates, the denser oceanic plate typically subducts at ~45°, taking much of the 'good stuff' (water-induced melt) into the mantle with it. Two exceptions account for most of the best belts globally – 'flat slab' where the oceanic plate only dips 20-25°, and where the subducting plate hosts a hot-spot or better still a mid-oceanic ridge. Peer SolGold cites the subducting Galapagos hotspot for regional prospectivity (not quite correct as hot spot formed 23-28Ma, Cascabel formed ~38Ma). In the case of the Mid Cauca belt, flat-slab tectonism drives regional prospectivity.

Figure 4 (A) regional volcanic belts from Panama to Ecuador, and (B) area of flat-slab subduction in C



Miraflores – where it all started, but not critical mass

Originally drilled by AngloGold Ashanti / B2 in 2016, post 2013 PEA, prior owner Seafield Resources completed a PEA in 2013 and largely completed a DFS, but went insolvent when unable to repay C\$16m of debt used to fund that. Metminco completed the DFS in 2017. The deposit lies in a porphyritic intrusive breccia-pipe hosted in an oceanic basement. The circular pipe is ~275m wide, and is open beyond 600m definition. The current resource of 840koz @ 2.74g/t also has ~0.5% Ag credits. From this, a reserve of 457koz @ 3.3g/t was defined in the 2017 DFS (Table 1) based on a conservative US\$1,200/oz constrained with a 1.75g/t cut-off.

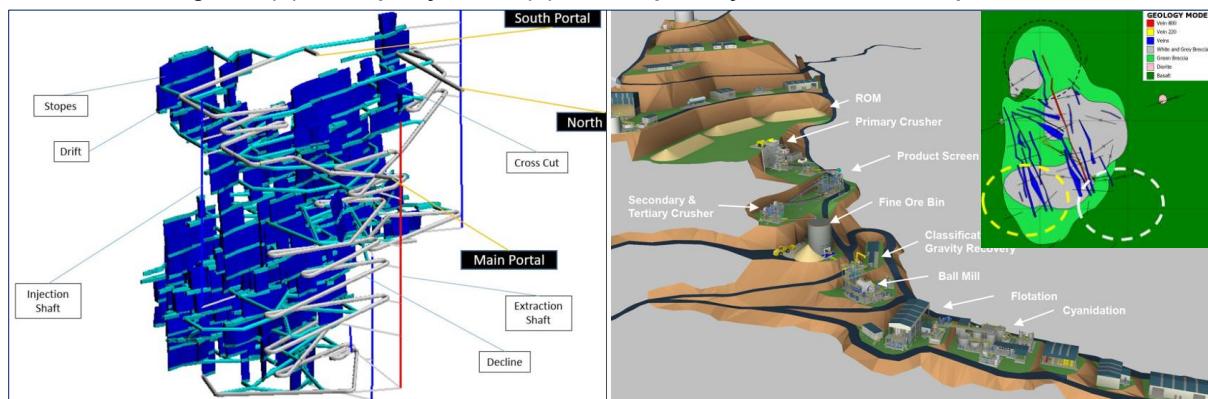
Table 1. Resource and reserve for Miraflores

Quinchia (100%)	Tonnes (Mt)	Grade (g/t Au)	Ounces (000oz)	Modelling parameters for 2017 DFS
MIRAFLORES				
Miraflores M&I	3.0	2.98	283	Methodology Indicator Kriging, ID ³ , US\$1,200/oz constrained
Miraflores inferred	6.3	2.74	557	Holes / meters 73 DD, 25,884m, +236m UG channels
Miraflores resource	9.3	2.74	840	Cut off Resource: 2.00g/t, reserve: 1.53g/t
Miraflores reserve	4.3	3.29	457	Mining method Longhole, 2.5m min. mining width, 7m avg
				Processing method Float with CIL tail, 92% recovery
				Economic constraints US\$27.92/t mining, US\$25.71/t proc. + G&A

Source: Los Cerros

With excellent ground conditions in the pipe and surrounding basalt, mining via longhole open stock with backfill is on 26m levels, with a 1.5m minimum mining width plus 0.5m dilution either side for a relatively conservative 31% average dilution. A 1,300tpd / 475ktpa vanilla float-CIL (including detox) plant grinding to a P₈₀ of 106um has forecast recovery of 92%. The DFS outlines grid power via a 17km spur line, along with valley-fill dry-stack tails. At recovery of 92%, 46koz pa over nine years sees a total production of 421koz LOM.

Figure 5. (A) UG stope layout and (B) terraced plant layout if a standalone operation



Source: Metminco

Capital cost of US\$72m includes US\$14m for mining and US\$46m for a small plant plus some site costs. Based on low-cost mining of US\$27.94/t, higher cost processing at US\$21.35/t and US\$4.25/t G&A, we estimate AISC of US\$843/oz, driving a A\$297m NPV_{5%-1850} with 49% IRR and 3.2-year payback.

Figure 6 Summary economics for Miraflores DFS, and SCP scenario at US\$,1850/oz

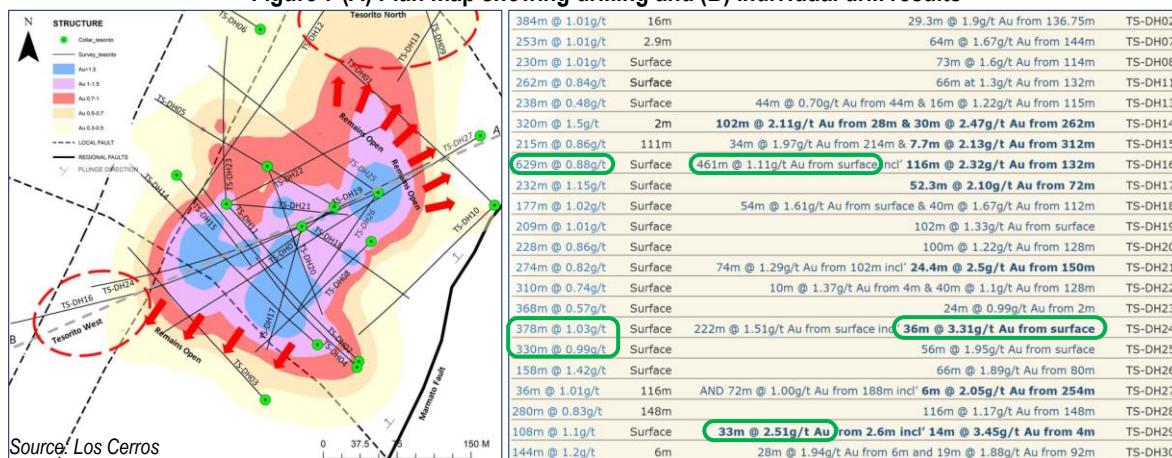
Miraflores UG	17 DFS	SCP	Miraflores UG	17 DFS	SCP
UG ounces (000oz)	457.6	457.6	Total build capex (A\$m)	90	90
UG grade (g/t)	3.29	3.29	Total sust. capex (A\$m)	22	23
LOM throughput (ktpa)	475	475	USD / AUD	0.80	0.80
Prod'n Au LOM (000oz pa)	46.2	421	NPV-1300 post-tax (A\$m)	120	118
Mining cost (US\$/t)	30.42	27.94	NPV-1850 post-tax (A\$m)	-	297
Processing cost (US\$/t)	8.82	21.35	IRR post-tax (%), US\$1,850/oz	25%	49%
G&A (US\$/t)	11.05	4.35	Payback (years, US\$1,850/oz)	3.60	3.25
LOM AISC (US\$/oz Au)	643	822	Source: Metminco, SCP, DFS @ 0.8 AUD/USD		

Our view: while infill on higher grade shoots (e.g. 59m @ 5.2g/t, 11m @ 12g/t) could add ounces and grade, the asset would benefit from more scale. In this regard, perhaps the most material upside would be the synergies of running this alongside a pit at Tesorito South less than 1km away. That pit could variably support SCPe 125-175koz pa, but the lower end of the range would come with a lower strip and a smaller pit. By supplementing this with UG ore, we outline a ±150koz pa scenario in the report without pushing strip / tpd to difficult-to-achieve levels.

Major new discovery at Tesorito South

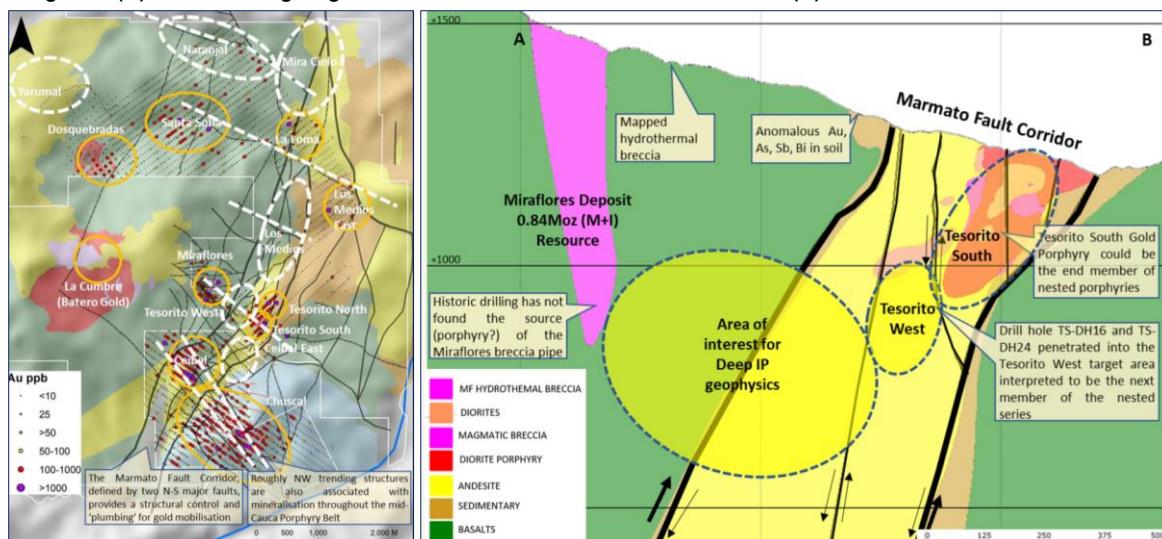
Three holes drilled by prior owner Seafield into Tesorito South included 384m @ 1.01g/t from 16m, but with no cross-holes it couldn't be certain if the asset had scale and no high-grade core or obvious starter pit had emerged. That took the shine off the asset at the time, leading prior operators to focus on cash-flow potential of Miraflores. Metminco's first hole, hole four, hit 180m @ 0.7g/t from surface. Critically this was the scissor to the discovery hole, establishing scale, but without starter pits / a higher grade core still as hole five and six hit 0.5-1.0g/t material; Figure 7A shows that these holes were peripheral to the deposit. The 'ah hah' moment came with hole seven hitting 64m @ 1.67g/t from 144m, giving the asset bulk and now a higher grade core. Essentially the pipe daylighted NE of drilling at the time. **Holes 25/26 essentially 'institutionalised' the discovery, flipping it into 'will be a mine territory with i) 330m @ 1g/t from surface and 158m @ 1.42g/t from surface, perpendicular to each other.** Key to emerging market builds is quick payback, and Tesorito South should have that in spades with 36m @ 3.31g/t and 14m @ 3.45g/t, both ~from surface in the NE of the deposit area where the high-grade daylights.

Figure 7 (A) Plan map showing drilling and (B) individual drill results



What is going on and what next: the deposit is still open to the NE and SW, with drilling underway now to expand in those directions. Stepping back, Figure 8A shows the general layout – it would appear that multiple deposits represent enrichments around a circular caldera structure. However, structural controls are important, with potential later epithermal overprints on early gold-porphyry pulses. In this case, both at Quinchia, and regionally on the Middle Cauca belt, NW-SE trending cross faults are considered an important structural control. Figure 8A shows these, including discoveries at Tesorito South and Miraflores. In fact, it is entirely possible that both Tesorito South and Miraflores source from the same regional structure, and deep IP is now being undertaken to target additional drilling there. The Marmato Fault Corridor acts as a footwall to mineralisation at Tesorito South.

Figure 8 (A) Plan showing targets around a circular caldera structure and (B) section from Miraflores to Tesorito

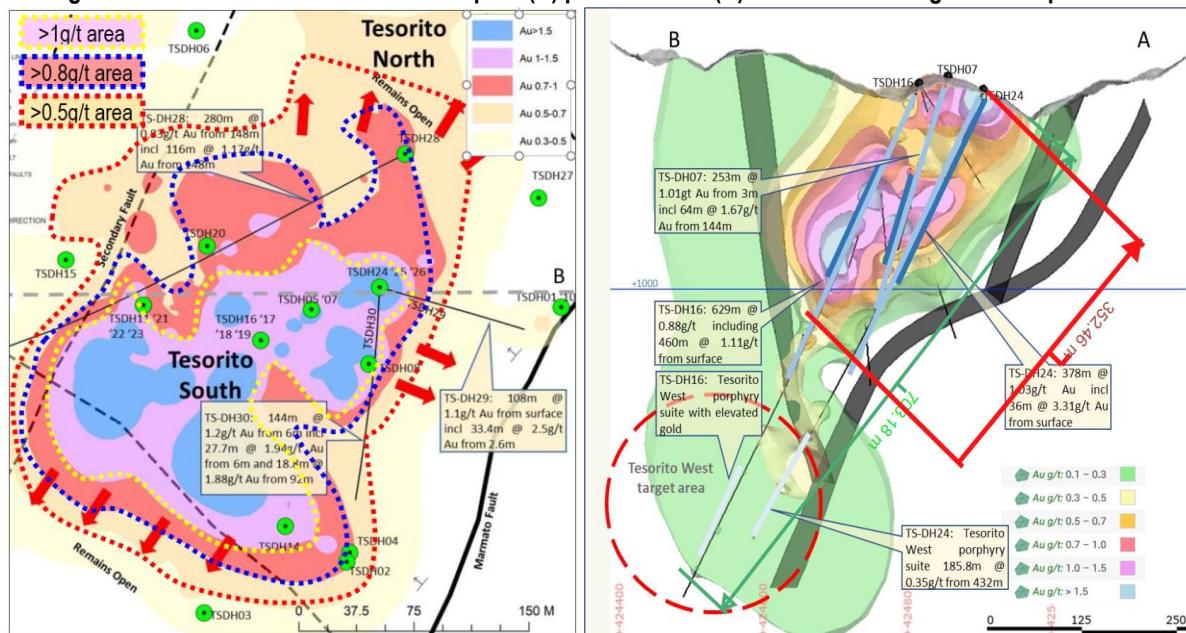


Source: Los Cerros

How big could it be?

Figure 9A shows the area of the 0.7 and 1g/t envelopes at surface, equating to ~165 x 165m and 220 x 220m, respectively. Figure 9B shows the core continuing to ~350m. The weighted average grade of all drill holes is 0.95g/t (over 262m), this is quite inaccurate as it includes lower grades that may be excluded, lifting the grade, but invariably sees a greater density of drilling in higher grade areas, skewing the average up.

Figure 9. Tesorito South mineralized footprint (A) plan view and (C) x-section showing 350m deep HG 'core'



Source: Los Cerros, SCP

SCPe 1-2Moz in 300-400m deep pit

The volume of any grade-shell is dependent on cut-off, and linked influence to strip and gross-margin. Simplistically modelling the grade shells as cylinders within a conical pit, the below tables show a mid-point of 1.9Moz would come at a 1.3:1 strip, driving a 47% gross margin at US\$1,500/oz, which we use for our own mining inventory modelling. At this stage, a reserve is difficult to estimate as the cross-dependencies to strip and grade are very high, all of which we are estimating on an approximate basis only. With relatively high capex compared to more flat terrains, we err on the side of lower ounces at higher strip and grade, using a 1.6Moz @ 1.13g/t pit-constrained inventory, although note that larger lower-grade lower-strip options will almost certainly be available.

Table 2 (A) Inputs and (B) sensitivities to our (C) estimated pit-constrained resource for Tesorito South

Sensitised inputs	Resource / strip / margin sensitivity for different grade shells									
	SCP @ 0.7g/t	0.6g/t	0.8g/t	1.0g/t	1.2g/t	1.4g/t	Tonnes	Strip	Margin*	
Ore envelope radius (m)	152									
Pit depth (m)	350	200m pit	0.3	0.4	0.5	0.6	0.7	15	0.4	63%
Cut-off (g/t)	0.5	300m pit	0.5	0.7	0.9Moz	1.1Moz	1.3	28	1.6	56%
SG	2.7	400m pit	0.8	1.1	1.3Moz	1.6Moz	1.9	41	3.2	47%
Pit depth (m)	350	500m pit	1.0	1.4	1.7	2.1	2.4	54	5.3	35%
Pit wall slope (°)	45	SCP @ 0.5g/t	0.6g/t	0.8g/t	1.0g/t	1.2g/t	1.4g/t	Strip	Strip	Margin^
Implied strip (x)	1.4	200m pit	0.4	0.50	0.62	0.7	0.9	19	0.1	56%
Grade (g/t)	0.8	300m pit	0.8	1.0Moz	1.3Moz	1.5	1.8	39	0.9	50%
Recovery (%)	90%	400m pit	1.1	1.5Moz	1.9Moz	2.3	2.6	59	2.0	43%
Gold price (US\$/oz)	1500	500m pit	1.5	2.0	2.5	3.0	3.5	78	3.3	33%
Mining cost (US\$/t)	2.5	UG potential (Moz)		1.0g/t	1.2g/t	1.4g/t	1.6g/t	1.8g/t	2.0g/t	2.5g/t
Proc. And G&A cost (US\$/t)	12.5	HG core: oz / 100m:		225koz	271koz	316koz	361koz	406koz	451koz	564koz
Gross margin (%)	47%	Source: SCP; *At 1g/t and ^0.8g/t, US\$1,500/oz, US\$2.50/t mining, US\$12.50/t G&A and proc.								
Quinchia (100%)		Tonne (Mt)		Grade (g/t)		Ounces (000oz)				
TESORITO SOUTH										
SCP 350m deep pit		44		1.13		1,592				
Total pit and UG reserve		48		1.26		1,949				

Source: SCP estimates

Valuation

We model the Miraflores UG per the DFS (Figure 6). We very simply lift the plant to 4Mtpa, and run a concurrent open pit using the grade and strip discussed above. Whilst the UG saw a 92% recovery, we lower this to 90% for the lower-grade pit for a 90.5% blended average. We model a fixed 4Mtpa plant, with capex of US\$345m given advantages of only 17km to grid power, but additional cost for TMF and civils given the terrain. Mining, processing and G&A costs are estimated based on global benchmarking, with all inputs shown in Table 3.

In fact, the similarity to the Didipio operation in the Philippines makes a good comparison – that operation planned a 3.5Mtpa mill facility to process a pre-start pit reserve of 44Mt @ 1.7g/t AuEq (50/50 Au/Cu) with a small 6Mt @ 2.8g/t AuEq UG. Once permitted, it produced >250koz in 2017, declining to 127koz pa in 2019. A key component of Los Cerros is the “3 S”: strip, scheduling and stockpiling. Firstly the large low-grade halo may allow **stockpiling** and end of life processing of 0.3-0.5g/t material common (B2 has 0.19gt cut-off at Gramalote), lowering the **strip**. Most importantly, the high-grade at surface should enable **starter pits** to ‘repay the mill’ more quickly.

Table 3. Peer comparisons and inputs used in our Los Cerros DCF valuation

Peer comparisons	G Mining Brazil	Oceana Philippines	Los Cerros Colombia	
	TZ 2019	Dipidio 2014	SCPe	Comment
Mill throughput (Mtpa)	4.3	3.5	4.0	475kt pa UG, residual pit
Pit grade (g/t Au)	-	-	1.13	Smaller higher-grade subset
ROM grade (g/t Au, incl. UG)	1.41	0.97	1.33	Supplemental UG lifts grade
Strip (x)	3.9	2.6	1.7	Use 0.5g/t shell / cylinder+cone
Recovery (%)	90%	88%	90%	86% prelim. at 106um, 92% for UG
OP mining cost (US\$/t)	2.66	2.58	2.58	Similar bulk mining
UG mining cost (US\$/t)	-	26.45	50.00	80% lift on DFS for conservatism
Processing cost (US\$/t)	9.02	7.67	10.00	Global benchmarking
SG&A + reclaim (US\$/t)	2.96	9.61	5.29	Above peer average, Andes
Royalty (%)	3.00%	2.60%	5.0%	Additional 0.5% B2 NSR
On site capex (US\$m)	382	185	345	Global benchmarking

Source: SCP, company reports

Below we show our NPV of A\$1,080m. As noted, this is only an approximate estimate or even ‘best guess’ as it is simply too early to accurately estimate the strip, schedule and grade. We have modelled a 3Y 1.7g/t starter cut of the pits, declining thereafter for LOM average of 1.13g/t. However, our estimates for strip are approximate given the trade off between grade and strip / capex, and we have conservatively excluded stockpiling at this time, which would lift ounces, lower strip and potentially assist with scheduling grades in early years.

Table 4. Modelled economic parameters for Los Cerros UG DFS, SCP UG DFS and SCP combined pit and UG

Valuation scenarios	LCL		SCP	Valuation scenarios	LCL		SCP
Quinchia (100%)	17 DFS	UG	UG + pit	Quinchia (100%)	17 DFS	UG	UG + pit
UG tonnes (000t)	4,326	4,326	4,326	UG mining cost (US\$/t)	27.94	27.94	50.00
UG ounces (000oz)	458	458	458	Pit mining cost (US\$/t)	-	-	2.58
UG grade (g/t)	3.29	3.29	3.3	Processing cost (US\$/t)	21.35	21.35	10.00
Pit tonnes (000t)	-	-	34,655	G&A (US\$/t)	4.35	4.35	4.00
Pit ounces (000oz)	-	-	1,381	LOM AISC (US\$/oz Au)	643	822	939
Pit grade (g/t)	-	-	1.24	Total build capex (A\$m)	90	90	460
Strip ratio (x)	-	-	1.70	Total sust. capex (A\$m)	22	23	22
LOM throughput (ktpa)	475	475	4,000	USD / AUD	0.80	0.80	0.75
Blended ROM grade (g/t)	3.29	3.29	1.47	NPV-1300 post-tax (A\$m)	120	118	-
Recovery (%)	92.0%	92.0%	90.5%	NPV-1850 post-tax (A\$m)	-	297	1,080
Prod'n Au LOM (000oz pa)	46	46	166	IRR post-tax (% , US\$1,850/oz)	25%	49%	44%

Source: SCP estimates, UG @ 0.8 AUD/SUD DFS @ 0.8 AUD/USD

Recommendation

Although we show a fully-diluted (for mine build) model below, at this stage it is far too early to be able to reliably estimate that. Rather, we apply an extremely conservative 0.2xNAV to our diluted-for-options (but not build) NAV, which includes the mining operations, cash and cash from options. On this basis, we **initiate coverage with a BUY rating and A\$0.36/sh PT**. Exploration upside is a key tenant of our thesis. For Tesorito South this is potentially captured in our 1.6Moz inventory already. Regionally, exploration is difficult to value, certainly in comparison to the potential billion-dollar DCF already potentially available. As such, we see exploration as a key reason to invest (discussed in detail overleaf), but conservatively exclude it from our valuation for now.

Table 5. (A) DCF valuation and NAV, (B) sensitised to gold price and discount rate

SOTP project valuation*				Asset value: 1xNPV project @ build start (A\$m, ungeared)*						
	A\$m	O/ship	NAVx	A\$/sh	Project NPV (A\$m)	\$1650oz	\$1750oz	\$1850oz	\$1950oz	\$2050oz
Miraflores UG	296	100%	0.20x	0.09	Discount rate: 9%	667	767	868	968	1,069
Tesorito South	784	100%	0.20x	0.23	Discount rate: 7%	759	869	979	1,089	1,199
Pro-forma Cash	24.0	100%	1.00x	0.04	Discount rate: 5%	866	986	1,107	1,227	1,348
Cash from options	2.9	100%	1.00x	0.00	Ungeared IRR:	37%	41%	44%	48%	51%
Nominal exploration	-	100%	1.00x	-	Project NPV (A\$/sh)	\$1650oz	\$1750oz	\$1850oz	\$1950oz	\$2050oz
Asset NAV5% US\$1850/oz	1,107		PT:	0.36	Discount rate: 9%	0.23	0.26	0.29	0.32	0.35
*Shares diluted for options not mine built			Market P/NAV5% 3Q23	0.09x	Discount rate: 7%	0.26	0.29	0.32	0.35	0.39
					Discount rate: 5%	0.29	0.32	0.36	0.39	0.43

Source: SCP estimates, *project NPV, ex fin. costs and cent G&A, discounted to build start

To convert our asset NAV to a group valuation, we model 65% gearing of debt, with residual equity to cover the capex, but also exploration / engineering until DFS, plus mine build, including central G&A, finance charges during the build, and additional working capital beyond modelled capex. This can only be considered very approximate at this stage, but in line with the current 0.09xNAV that the stock trades on, this shows a fully-funded fully-diluted 1xNAV at first gold around A\$1.20/sh, or >8x above the current price.

Table 6 (A) Geared NAV net of G&A and central costs and (B) sensitivities

Group NAV over time	4Q21	4Q22	4Q23	4Q24	4Q25	Geared NAV at first pour, diluted for build, net G&A and fin. costs^					
						NAV, first gold (A\$m)	\$1650oz	\$1750oz	\$1850oz	\$1950oz	
Quinchia NPV (A\$m)	977.0	1,025.8	1,079.9	1,256.6	1,650.2	Discount rate: 9%	878	992	1,107	1,221	1,335
G&A and fin. costs (A\$)	(112.1)	(114.8)	(117.3)	(116.0)	(104.4)	Discount rate: 7%	946	1,068	1,189	1,311	1,432
Net cash prior qtr (A\$)	2.9	13.3	6.3	66.8	(266.2)	Discount rate: 5%	1,023	1,153	1,282	1,412	1,542
Cash from options (A\$)	2.9	2.9	2.9	2.9	2.9	Geared project IRR:	33%	37%	41%	44%	48%
Nominal expl'n (A\$)	-	-	-	-	-	NAV, first gold (A\$/sh)*	\$1650oz	\$1750oz	\$1850oz	\$1950oz	\$2050oz
NAV FF FD (A\$m)	871	927	972	1,210	1,282	Discount rate: 9%	0.69	0.83	0.97	1.11	1.25
Shares in issue (m)	626	733	733	1,054	1,054	Discount rate: 7%	0.79	0.94	1.09	1.24	1.39
1xNAV/sh FF FD (A\$)	1.39	1.27	1.33	1.15	1.22	Discount rate: 5%	0.89	1.05	1.22	1.38	1.55

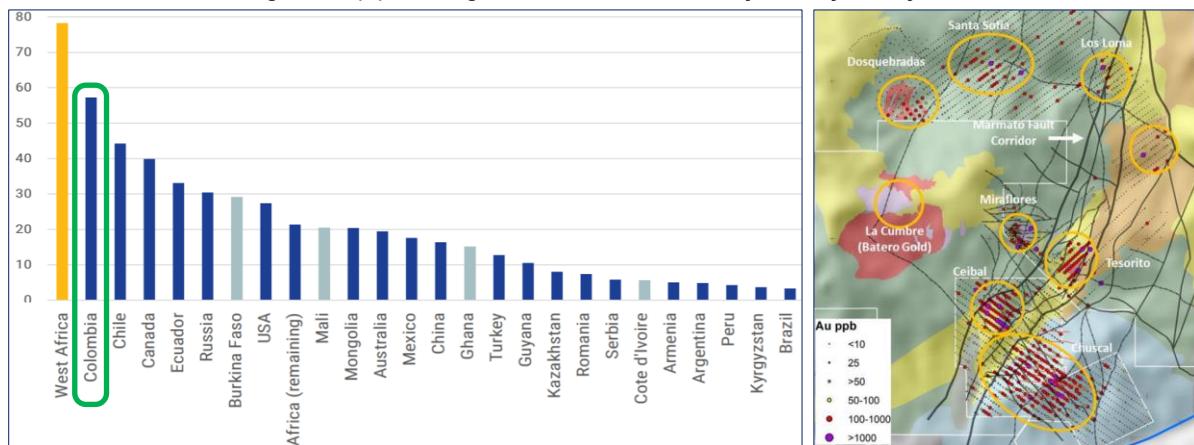
^Project NPV incl grp SG&A & fin. cost, +net cash; *diluted for build equity

Source: SCP estimates

Exploration upside

Perhaps the most simple and important price driver for Los Cerros is simply adding ounces. We previously discussed the geological ‘hot spot’ that is the Middle Cauca belt in Colombia. We quantify this below (Figure 10A), with Colombia adding more gold ounces from 2006-2016 than any country globally. Quinchia sits on a circular structure, likely related to an intrusive centre, with 8 targets nearby. The company has one of its own rigs and three contract rigs (additional contract rig to be added in 2022) drilling these (Figure 10B) and potential targets in the Andes project ~70km further north.

Figure 10. (A) Global gold discoveries 2006-16 by country and by Moz

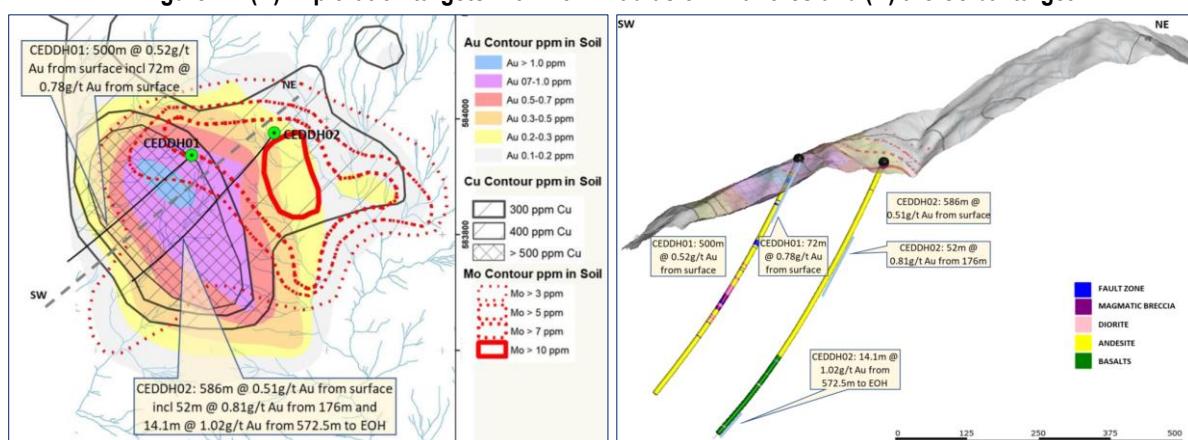


Source: Roxgold after S&P

Dosquebradas hosts a low-grade 58Mt @ 0.7g/t for 459koz at a 0.5g/t cut-off with 0.6g/t silver credits.

Ceibal lies 1km south of Tesorito South, and was only recently drilled for the first time from surface, with the maiden drill hole returning 500m @ 0.52g/t from surface (incl. 72m @ 0.78g/t from surface) and 586m @ 0.51g/t from surface. While the grades aren’t what is required for a smaller operation, this does start opening the door to ‘mega mine’ potential, but Los Cerros’ target is to find higher grades for now. Of note, some early drilling at Tesorito was similar, so vectoring into higher grades is still a possibility in our view.

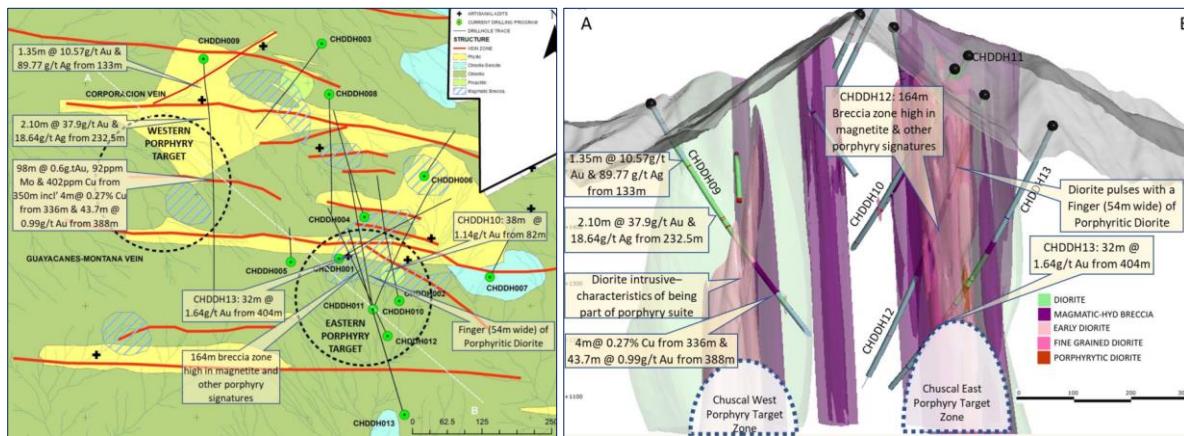
Figure 11. (A) Exploration targets within 3km radius of Miraflores and (B) the Ceibal target



Source: Los Cerros

Chuscal, along with Ceibal above, was acquired from AngloGold Ashanti as a discrete licence. Chuscal has the largest soil anomaly footprint, but is more complicated with what appears to be an early porphyry (350m @ 0.57g/t Au from surface, and 320m @ 0.43g/t from 32m) overprinted by a later epithermal event with 2-6m @ 5-8g/t. Two porphyry targets remain to be drilled there; with a footprint some twice the size of Tesorito there is significant size potential here. Most interesting is that the 350m @ 0.57g/t above was not porphyry hosted, but hosted in country rock, with only a ‘finger’ of porphyry diorite was ever been drilled, interpreted to be related to an underlying causative porphyry (Figure 12B, hole 9).

Figure 12 (A) Plan and (B) section showing early drilling and porphyry targets at Chuscal

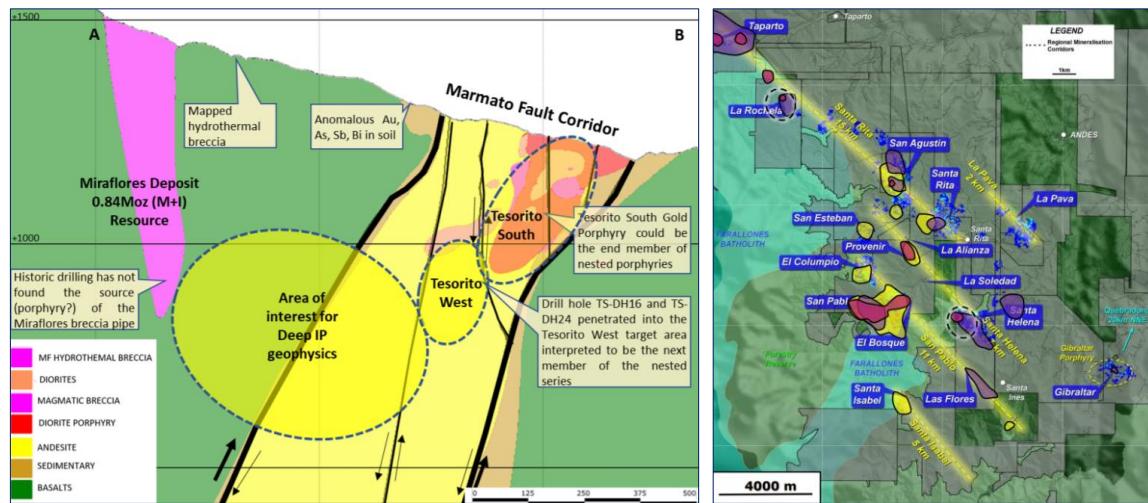


Source: Los Cerros

Tesorito West and Deeps lies between Tesorito and Miraflores, as shown in Figure 13B. The system is open at depth, and early drilling has hit smoke but not yet fire. The company will now look at drone magnetics and deep-penetrating geophysics to see if targets can be identified.

The Andes project, 70km to the north, is 8x larger than the holdings at Quinchia. The area is earlier stage and isn't an immediate priority for drilling. However, this is more prime Middle Cauca real estate, with 12 targets along the classic NW corridor orientation. These include copper-gold porphyry targets of late Miocene age, similar to the 30Moz AuEq Nuevo Chaquiro asset 20km north of Andes. A single target was drilled in 2018, with highlights of 27m @ 1.6g/t Au and 83g/t Ag from 52m. The silver is of particular interest with an old silver mine just to the north of the license area. Quite astonishingly, 2% of all ~14,000 surface samples taken here grade >1g/t.

Figure 13 (A) Miraflores / Tesorito West / Tesorito Deeps targets (B) The larger Andes project showing multiple early-stage epithermal and porphyry targets



Source: Los Cerros

Ticker: LCL AU	Price / mkt cap:	A\$0.15/sh, A\$94m	Project PNAV today:	0.09x	Asset:	Quinchia																					
Author: B Salier B Gaspa	Rec/0.2xNAV PT:	BUY, A\$0.36/sh	1xNAV _{3Q24} FF FD:	C\$1.33/sh	Country:	Colombia																					
Commodity price	CY21E	CY22E	CY23E	CY24E	CY25E	Resource / Reserve	Tonnes	Grade	Ounces																		
Gold price	1,850	1,850	1,850	1,850	1,850	Miraflores resource	9.3Mt	2.74g/t	840koz																		
SOTP project valuation*						Dosquebrados resource	20.2Mt	0.71g/t	459koz																		
	A\$m	O/ship	NAVx	A\$/sh		Group resource incl Tes. S below	64.1Mt	1.24g/t	2563koz																		
Miraflores UG	296	100%	0.20x	0.09		Miraflores reserve	4.3Mt	3.29g/t	457koz																		
Tesorito South	784	100%	0.20x	0.23		SCP Tesorito S resource/reserve	35Mt	1.13g/t	1264koz																		
Pro-forma Cash	24.0	100%	1.00x	0.04		SCP total mining inventory	39.0Mt	1.37g/t	1721koz																		
Cash from options	2.9	100%	1.00x	0.00																							
Nominal exploration	-	100%	1.00x	-																							
Asset NAV5% US\$1850/oz	1,107		PT:	0.36																							
*Shares diluted for options not mine build			Market P/NAV5% 3Q23	0.09x																							
Asset value: 1xNPV project @ build start (A\$m, ungeared)*																											
Project NPV (A\$m)	\$1650oz	\$1750oz	\$1850oz	\$1950oz	\$20500oz	Pre-DFS expl'n / G&A:	A\$14m	cash 2Q21 + pre-Au ITM op.:	A\$27m																		
Discount rate: 9%	667	767	868	968	1,069	Exploration to DFS	A\$13m	Equity for DFS:	A\$20m																		
Discount rate: 7%	759	869	979	1,089	1,199	Build capex:	A\$460m	Build equity @ 0.4xNAV:	A\$210m																		
Discount rate: 5%	866	986	1,107	1,227	1,348	Fin. cost + WC over DFS	A\$46m	65% geared debt @ 8%:	A\$299m																		
Ungeared IRR:	37%	41%	44%	48%	51%	TOTAL USES:	A\$520m	TOTAL SOURCES:	A\$556m																		
Project NPV (A\$/sh)	\$1650oz	\$1750oz	\$1850oz	\$1950oz	\$20500oz																						
Discount rate: 9%	0.23	0.26	0.29	0.32	0.35																						
Discount rate: 7%	0.26	0.29	0.32	0.35	0.39																						
Discount rate: 5%	0.29	0.32	0.36	0.39	0.43																						
*Project NPV, ex fin. costs and cent G&A, discounted to build start																											
Group NAV over time^	4Q21	4Q22	4Q23	4Q24	4Q25	Share data	Basic	FD with options	FD for build																		
Quinchia NPV (A\$m)	977.0	1,025.8	1,079.9	1,256.6	1,650.2	Basic shares (m)	625.9	678.0	1,054																		
G&A and fin. costs (A\$m)	(112.1)	(114.8)	(117.3)	(116.0)	(104.4)	Average shares out (m)	332.0	532.4	719.2	732.6	933.6																
Net cash prior qtr (A\$m)	2.9	13.3	6.3	66.8	(266.2)	EPS (A\$/sh)	-	-	-	-	-																
Cash from options (A\$m)	2.9	2.9	2.9	2.9	2.9	CFPS (A\$/sh)	-	-	-	-	-																
Nominal expl'n (A\$m)	-	-	-	-	-	EV (A\$m)	42.0	79.6	96.3	105.6	156.3																
NAV FF FD (A\$m)	871	927	972	1,210	1,282	FCF yield (%)	-	-	-	-	-																
Shares in issue (m)	626	733	733	1,054	1,054	PER (x)	-	-	-	-	-																
1xNAV/sh FF FD (A\$/sh)	1.39	1.27	1.33	1.15	1.22	P/CF (x)	-	-	-	-	-																
Geared NAV at first pour, diluted for build, net G&A and fin. costs^																											
NAV, first gold (A\$m)	\$1650oz	\$1750oz	\$1850oz	\$1950oz	\$20500oz	Income statement	CY20A	CY21E	CY22E	CY23E	CY24E																
Discount rate: 9%	878	992	1,107	1,221	1,335	Net revenue (A\$m)	0.1	-	-	-	-																
Discount rate: 7%	946	1,068	1,189	1,311	1,432	COGS (A\$m)	-	-	-	-	-																
Discount rate: 5%	1,023	1,153	1,282	1,412	1,542	Gross profit (A\$m)	0.1	-	-	-	-																
Geared project IRR:	33%	37%	41%	44%	48%	D&A, attrib (A\$m)	0.0	0.0	-	-	-																
NAV, first gold (A\$/sh)*	\$1650oz	\$1750oz	\$1850oz	\$1950oz	\$20500oz	G&A + sh based (A\$m)	3.9	4.2	4.2	4.8	5.5																
Discount rate: 9%	0.69	0.83	0.97	1.11	1.25	Finance cost (A\$m)	1.3	1.1	-	-	0.4																
Discount rate: 7%	0.79	0.94	1.09	1.24	1.39	Taxes (A\$m)	-	-	-	-	-																
Discount rate: 5%	0.89	1.05	1.22	1.38	1.55	Net income (A\$m)	(5.3)	(5.4)	(4.2)	(4.8)	(5.9)																
^Project NPV incl grp SG&A & fin. cost, +net cash; *diluted for build equity																											
Production	Y1	Y2	Y3	Y4	Y5	Cash flow, attrib.	CY20A	CY21E	CY22E	CY23E	CY24E																
Production (000oz Au)	196	225	225	176	167	EBIT (A\$m)	(3.9)	(4.2)	(4.2)	(4.8)	(5.5)																
C1 cost (US\$/oz)	469	469	469	596	630	Add back D&A (A\$m)	0.0	0.0	-	-	-																
AISC cost (US\$/oz)	586	581	581	719	756	Less tax, interest (A\$m)	1.3	1.1	-	-	0.4																
AISC = C1 + ug sustaining capex, Y1 = CY25																											
<table border="1"> <thead> <tr> <th>Year</th> <th>Gold prod'n (LHS, 000oz)</th> <th>AISC (RHS, US\$/oz Au)</th> </tr> </thead> <tbody> <tr><td>Y1</td><td>196</td><td>469</td></tr> <tr><td>Y2</td><td>225</td><td>469</td></tr> <tr><td>Y3</td><td>225</td><td>469</td></tr> <tr><td>Y4</td><td>176</td><td>596</td></tr> <tr><td>Y5</td><td>167</td><td>630</td></tr> </tbody> </table>										Year	Gold prod'n (LHS, 000oz)	AISC (RHS, US\$/oz Au)	Y1	196	469	Y2	225	469	Y3	225	469	Y4	176	596	Y5	167	630
Year	Gold prod'n (LHS, 000oz)	AISC (RHS, US\$/oz Au)																									
Y1	196	469																									
Y2	225	469																									
Y3	225	469																									
Y4	176	596																									
Y5	167	630																									
Balance sheet																											
Cash (A\$m)	7.8	0.3	11.6	4.3	13.7	Cash flow ops (A\$m)	(4.7)	(3.0)	(2.7)	(3.3)	(4.4)																
AR, inv, prepaid (A\$m)	0.2	0.2	0.2	0.2	0.2	PP&E: build /sust (A\$m)	(0.6)	0.2	-	-	225.2																
PP&E + other (A\$m)	20.0	25.4	31.4	35.4	261.6	PP&E - expl'n (A\$m)	(2.0)	5.8	6.0	4.0	1.0																
Total assets (A\$m)	28	26	43	40	275	Cash flow inv. (A\$m)	2.6	(6.1)	(6.0)	(4.0)	(226.2)																
Debt (A\$m)	-	-	-	-	-	Share issue (A\$m)	16.0	1.6	20.0	-	210.0																
Accounts payable (A\$m)	0.5	0.6	0.6	0.6	0.6	Debt draw (repay) (A\$m)	(0.4)	(0.1)	-	-	30.0																
Others (A\$m)	0.2	0.2	0.2	0.2	0.2	Cash flow fin. (A\$m)	15.7	1.5	20.0	-	240.0																
Total liabilities (A\$m)	0.7	0.7	0.7	0.7	30.7	Net cash change (A\$m)	13.5	(7.6)	11.3	(7.3)	9.4																
Issued capital (A\$m)	370.5	372.7	394.2	395.7	607.2	EBITDA (A\$m)	-	(5.3)	(4.2)	(4.8)	(5.5)																
Earnings (A\$m)	(343.1)	(347.5)	(351.7)	(356.6)	(362.5)	Liabilities + equity (A\$m)	28	26	43	40	275																

Source: SCP estimates

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9 The analyst has been reimbursed for travel expenses for a site visit by the issuer	NO

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TENDER:	0
NOT RATED:	0
TOTAL	48

¹ As at the end of the month immediately preceding the date of issuance of the research report or the end of the second most recent month if the issue date is less than 10 calendar days after the end of the most recent month